On August 9, 2011, SCOR SE, a global reinsurer with offices in more than 31 countries, acquired substantially all of the life reinsurance business, operations and staff of Transamerica Reinsurance, the life reinsurance division of the AEGON companies. The business of Transamerica Reinsurance will now be conducted through the SCOR Global Life companies, and Transamerica Reinsurance is no longer affiliated with the AEGON companies.

While articles, treaties and some historic materials may continue to bear the name Transamerica, AEGON is no longer producing new reinsurance business.

Archive Materials

In Times of Low Growth, Preservation is Key
Reprinted from the October 2009 Messenger newsletter

by Ken Conners, Vice President and Chief Underwriting Officer
LIMRA statistics indicate that life insurance sales have dropped across product lines, with a 23-percent drop in premium levels in the first half of 2009 compared to the same period a year earlier (U.S. Individual Life Insurance Sales Trends, Second Quarter 2009). Sales of higher margin and fee-based products, such as universal life and variable universal life, have suffered most, while term experienced only slight declines.

As new sales are more difficult in a slow economy, life insurers are investigating a variety of ways to preserve business already written. These preservation efforts seek to help consumers keep their coverage and assist recently lapsed customers reinstate coverage. Some companies are exploring extending the reinstatement period for policies from six to 12 months after lapse versus the traditional 30 to 60 days. This is in contrast to redating a policy, an exceptional practice companies have used in the past to reinstate a policy with a new, current effective date (and no overdue premiums).

Addressing Insurer Interests
From the company’s perspective, a longer reinstatement period might help preserve business. After all, there is no guarantee that the customer will return to his former carrier for coverage when conditions improve. An effective way to prevent customers from shopping for alternative coverage is to keep the customer’s existing policy inforce, especially for a commodity-type product such as term.

Costs also can factor into the decision. While reinstatement is not a cost-free process, it can be less expensive than lapsing a customer, remarketing a product to him and incurring essentially redundant acquisition costs. Costs associated with resubmitting an application and underwriting documentation also should be considered.

Mortality Considerations
From a mortality perspective, temporary extensions may have little impact on the performance of a block of business. However, selection issues become increasingly important as the reinstatement period is extended and invites abuse of the spirit of the provision.
Extending the reinstatement period beyond the traditional 30- to 60-day period can introduce adverse selection by giving the lapsed policyholder “probationary coverage” for up to a year. Meanwhile, the insured may discover a medical issue that motivates the lapsed owner to contact the insurer and have the policy brought back into good standing.

While insurers bear the risk that a death claim may occur earlier than expected, these events are random. Extending the reinstatement period without careful consideration can weaken this tenet of insurance, creating significant selection problems for the insurer.

**Control Selection**

To control for such risks, companies should review their existing reinstatement requirements before making changes to ensure that they remain sufficient under the new terms. In many cases, the company may determine that the guidelines addressing a reinstatement within 30 days are inadequate for such an action after 90 days.

Below are examples of term reinstatement approaches:

- **By face amount band.** As with the original application, an exhaustive investigation for reinstating lower face amount policies may not be cost effective. Life insurers may therefore consider treating reinstatement requests differently by face amount band.

- **By lapse duration.** The greater length of time that elapses between the last payment and the request for reinstatement, the greater the opportunity for the policyowner to select against the carrier. Companies may want to tailor evidence requirements based on the length of time since lapsation.

Any company that extends its reinstatement period beyond the time frame stipulated in the policy should document every process and procedure. While most policyowners will act in good faith, any changes that might be viewed as selective or subjective open a company to legal action. Having all procedures clearly documented will help companies combat abuse.

**The Role of Reinsurers**

While the company instituting policy changes will feel the most direct impact, its reinsurers also will bear risk associated with reinstatement. Depending on the quota share arrangement, the reinsurer may actually bear an equal or greater exposure to the risk than the ceding company. Treaty requirements generally stipulate that any changes on reinsured policies that may affect expected mortality must receive the approval of the reinsurer assuming those risks.

The focus on policy changes highlights an opportunity for cooperation between a life insurer and its reinsurers. In addition to their role as risk managers, reinsurers can offer their modeling capabilities to clients to explore how changes might affect a product’s expected mortality and profitability under a variety of stress scenarios. In such a situation, the carrier would share pertinent policy data with the reinsurer, detail the proposed changes and request advice on how the resulting changes could affect business performance.

**Extraordinary Times Call for Extraordinary Actions**

We have seen many examples where insurers have taken temporary measures to liberalize policy rules in light of notable events. Property insurers waived a number of policy requirements and premium payments for residents affected by Hurricanes Katrina, Ivan and Wilma and the California wildfires. Life insurers went to extreme measures to work with customers in the aftermath of 9/11.

Extreme economic uncertainty creates anxiety among customers, who may struggle to maintain coverage during employment disruption, for example. Providing a longer grace period to become current with premiums can help alleviate this concern, increase confidence in their financial future and build customer trust and loyalty.

Additionally, there is a risk that some policyowners had lapsed coverage early into the crisis in anticipation of budget constraints. Some of these former customers may have discovered later that they did not need to cut their coverage in light of other cost-cutting measures. An extension will help these customers bring their policies back into good standing without penalty. Needless to say, the crisis presents an opportunity for life insurers to contact and educate their policyowners and for reinsurers to help their clients in developing effective and valuable short-term solutions.